

Mistatim Stage 17 Revolving Industrial Servicing Fund Extension

Recommendation

That Executive Committee recommend to City Council:

That an exemption to City Policy C533A Revolving Industrial Servicing Fund, to allow Golden West Business Park Ltd. to complete an end-user development for Mistatim Stage 17, by December 31, 2021, and remain eligible for the Revolving Industrial Servicing Fund, be approved.

Executive Summary

Golden West Business Park Ltd. entered into a servicing agreement (Mistatim Stage 17) with the City in December 2014 to develop approximately 30 hectares of land in the Mistatim Industrial neighbourhood. The servicing agreement required Golden West Business Park Ltd. to construct significant off-site cost shareable infrastructure in order to service their land. Off-site cost shareable infrastructure is infrastructure located within City road right of way and constructed with excess capacity to service adjacent developments. In addition to the construction of off-site cost shareable infrastructure, Golden West Business Park Ltd. was required to have completed an end-user development, which are fully constructed buildings on serviced land, by December 2017 to be eligible for up to \$8 million in rebates from the City.

Due to the economic challenges the Edmonton region is experiencing, it has not been economically feasible for Golden West Business Park Ltd. to complete construction of buildings on their lands in the required time and has requested an extension.

Administration supports extending the deadline for Golden West Business Park Ltd. to complete the construction of buildings and remain eligible for a rebate through the Revolving Industrial Servicing Fund.

Report

Revolving Industrial Servicing Fund

The Revolving Industrial Servicing Fund, City Policy C533A, was designed to provide certainty to developers overseeing the construction of cost shareable infrastructure by ensuring that a portion of the rebates a developer carries, up to a maximum of \$4 million, is paid back in a timely manner.

To take part in the program and to be eligible for a rebate, developers must (among other things):

- construct cost shareable infrastructure; and
- erect new buildings within three years of the servicing agreement execution date.

If the developer does not meet these criteria, the project is no longer eligible for a rebate. If more than half of the proposed buildings are complete within those three years, the City may grant a one year rebate eligibility extension. This one year extension is to allow for construction of the remaining buildings.

When the City provides a rebate payment to the developer as part of this program, the City also assumes the rebate that would otherwise be owed to the front-ending developer. As other developments are constructed, the City enters into servicing agreements with the new developers. Through these agreements the City collects payment when the development benefits from the cost shareable infrastructure. This process enables the City to collect payments until the rebate assumed on behalf of the front-ending developer is paid off.

In addition to assuming rebates on behalf of front-ending developers, the Revolving Industrial Servicing Fund will recover rebates previously paid out by receiving an amount equal to 50 percent of the total incremental tax revenue increase from the front-ending developers development.

In June 2017, The Revolving Industrial Servicing Fund was replaced by the Industrial Cost Sharing Program to incentivize industrial land development.

Background

In December 2014, Golden West Business Park Ltd. signed a servicing agreement (Mistatim Stage 17), which is a contract between a developer and the City that requires the developer to construct infrastructure in accordance with the City's Design and Construction Standards and outlines the obligations of both parties, with the City to develop the lands in Mistatim Industrial.

An exemption to City Policy C533 was approved by City Council on March 3, 2015, to allow a fund rebate of up to \$8 million for a single servicing agreement entered into by Golden West Business Park Ltd. Both City Policy C533 and its later replacement C533A set the rebate upper limit of \$4 million.

In February 2016, the servicing agreement with Golden West Business Park Ltd. was amended to provide up to \$8 million of Golden West Business Park Ltd.'s rebate to be paid by the City in accordance with the Revolving Industrial Servicing Fund.

To service their lands, Golden West Business Park Ltd. committed to investing an estimated \$22.29 million towards the construction of cost shareable infrastructure such as sanitary sewers and storm sewers. The outcome of the \$22.29 million investment in infrastructure resulted in the development of approximately 30 hectares of industrial land, and will help to open up the Mistatim Industrial neighbourhood for further development.

In addition to the \$22.29 million invested by Golden West Business Park Ltd. for the construction of cost shareable infrastructure, Golden West Business Park Ltd. paid an additional \$2.06 million in drainage assessments for infrastructure that their development will benefit from.

The servicing agreement for Mistatim Stage 17 required the cost shareable infrastructure and all the required buildings to be constructed by December 2017. The Mistatim Stage 17 lands were sold by Golden West Business Park Ltd. to a third party to construct and subsequently occupy the buildings. Once the Mistatim Stage 17 lands were sold, world oil prices fell, which impacted the local Edmonton economy and the buildings initially proposed to be constructed were not and the land was subsequently sold again to another buyer. Given that the proposed buildings were not constructed by the December 2017 deadline, Mistatim Stage 17 was removed from the Revolving Industrial Servicing Fund program.

Current Status

To date Golden West Business Park Ltd. has completed the construction of cost shareable infrastructure and is in the process of getting it inspected and approved by the City. As a result of the significant investment in cost shareable infrastructure, Golden West Business Park Ltd. have the following rebates:

- Storm Sewers - \$10.45 million
- Sanitary Sewers - \$3.36 million

Three buildings have been completed and another three buildings are currently under construction, anticipated to be completed before the end of the year.

Financial Benefits to the City

The estimated initial taxable property assessment, which is the estimated valuation of the unserviced land at the time the servicing agreement is executed, for this development was \$12.1 million. Once all buildings are constructed, the total estimated post development taxable property assessment, which is the value of the serviced land

and completed buildings, for this development will be \$77.9 million, which is an increase of \$65.8 million to the City's industrial tax base.

Applying the Property Tax Estimator Tool on the City of Edmonton's website for 2020, the predevelopment yearly tax revenue generated by this land is estimated to be \$0.27 million and upon completion of this development, the yearly tax revenue yielded from this development is estimated to be \$1.75 million, which represents a net increase of \$1.48 million per year in revenue for the City.

Financial Status of the Revolving Industrial Servicing Fund

With the Revolving Industrial Servicing Fund being superseded by the Industrial Infrastructure Cost Share Program, the Revolving Industrial Servicing Fund no longer accepts new projects. As a result of no new projects being admitted into the Revolving Industrial Servicing Fund program, and given that \$8 million was initially put aside for the Mistatim Stage 17 development, the Revolving Industrial Servicing Fund has the capacity to accommodate this request.

Public Engagement

Public engagement was not undertaken for this report, as a servicing agreement is a contract between a developer and the City.

Corporate Outcomes and Performance Management

Corporate Outcome: The City of Edmonton has a resilient financial position			
Outcome	Measure	Result	Target
Edmonton has a growing non-residential tax base	Non-residential real growth	0 lots with buildings completed	1 lot with buildings completed

Risk Assessment

Risk Element	Risk Description	Likelihood	Impact	Risk Score (with current mitigations)	Current Mitigations	Potential Future Mitigations

Economic	If the economic climate continues to remain in a depressed state it will affect the developers ability to complete their remaining buildings	1	1	1 - Low	An amendment to the Mistatim Stage 17 servicing agreement will relieve the City of the obligation to provide payment to Golden West Business Park Ltd. if the buildings are not completed by December 31, 2021	None
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Others Reviewing this Report

- M. Persson, Chief Financial Officer and Deputy City Manager, Financial and Corporate Services
- C. Owen, Deputy City Manager, Communications and Engagement
- B. Andriachuk, City Solicitor